



**MCI Telecommunications
Corporation**

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

February 9, 1999

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, DC 20554

Re: CC Docket Nos. 96-262, 94-1, RM 9210; 98-157; 98-227; 99-1; 99-24

Dear Ms. Salas:

Alan Buzacott, Don Sussman and I met with Tamara Preiss, Aaron Goldschmidt, Steven Spaeth, Jay Atkinson, Ed Krachmer and Florence Setzer of the Competitive Pricing division of the Common Carrier Bureau. In our meeting we discussed MCI WorldCom's positions on pricing flexibility for incumbent local exchange carriers. The attached document, which we would like made part of the record in the above referenced proceedings was given to all attendees.

Very truly yours,

Bradley Stillman
Senior Policy Counsel
Strategic Advocacy

cc Tamara Preiss
Aaron Goldschmidt
Steven Spaeth
Jay Atkinson
Ed Krachmer
Florence Setzer

ILEC Pricing Flexibility

MCI WorldCom

February 9, 1999

Overview

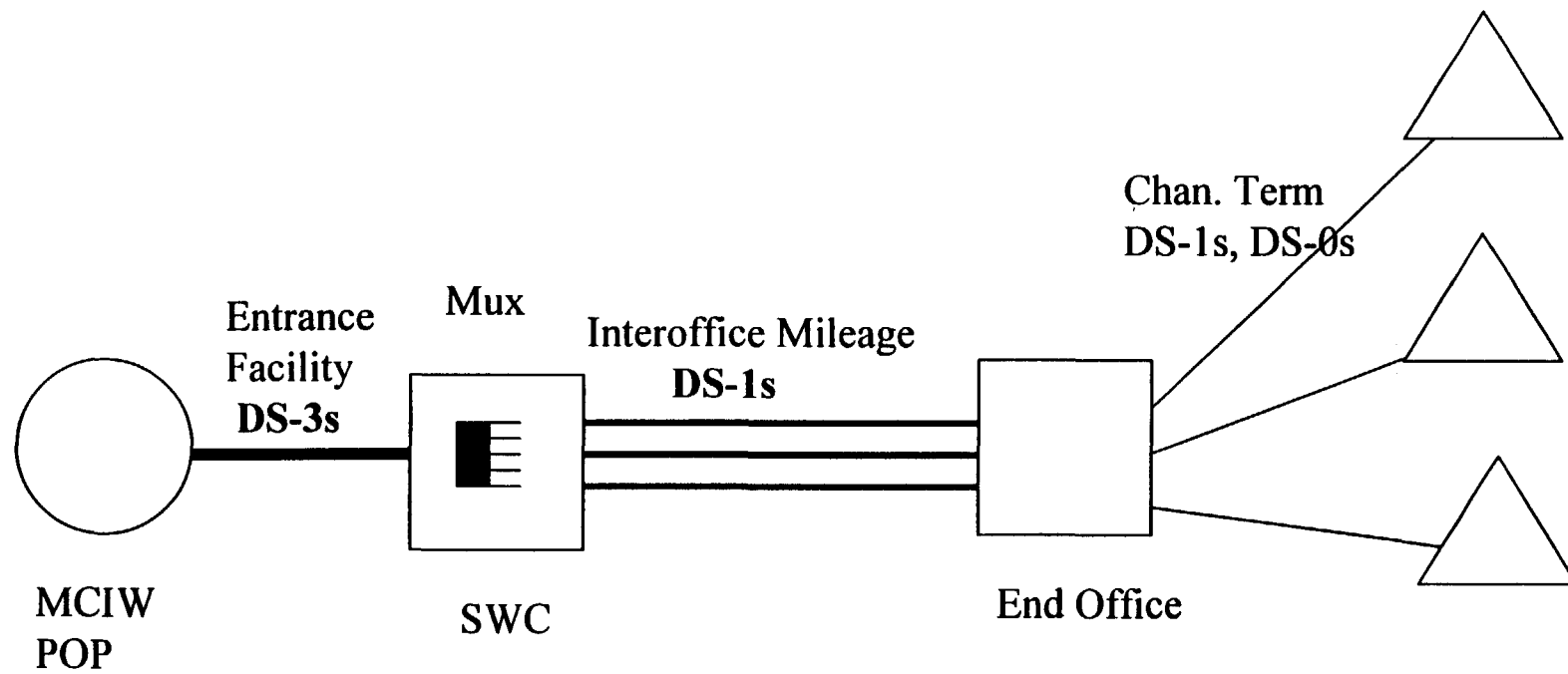
- No additional pricing flexibility now
- Develop a national policy for pricing flexibility
 - Forward-looking rules, not ad hoc action on forbearance petitions
 - National policy:
 - reduce access to cost
 - establish a framework for transport pricing flex
 - no need to address switched access pricing flex now

No Additional Pricing Flexibility Now

- Competitive access supply very limited
- Access charges above cost
- Under these conditions, pricing flexibility:
 - permits ILECs to shift “fat” to less competitive services and geographic areas
 - permits unreasonable discrimination
 - permits ILECs to deter entry

Transport Market: Not Substantially Competitive

- Very limited number of buildings on CAP networks
- All other routes still require ILEC facilities:
 - Entrance facility: some alternatives (growth only)
 - Interoffice: very limited alternatives
 - Multiplexing: 100% ILEC
 - Channel terminations: 100% ILEC



Transport Market (cont'd)

Indicators of ILEC transport market power:

- ILEC market share
 - 86% of private line revenues
 - 93% of switched minutes use ILEC transport
- ILEC pricing behavior
 - Trunking basket at cap
 - very limited use of zone pricing
- Declining service quality

Transport Market (cont'd)

“DS-1 equivalent” measures are misleading:

- Give disproportionate weight to entrance facility
 - example (Sprint comments):

ILEC still has 59% of transport revenues even if entrance and interoffice purchased from CAP

- Quality Strategies reports
 - no description of the methodology used for counting circuits and DS1 equivalents

No Switched Access Competition

- Market share:
 - ILECs have 99% share of switched access revenues
- Pricing behavior:
 - all ILECs pricing TS & CL services at cap
- UNEs not viable
 - only 244,000 UNE loops nationwide -- 0.2%

National Framework

- Drive access to cost
- Create a framework for evaluating transport pricing flexibility requests
- No need to address switched access pricing flexibility at this time

Transport Framework

- Must demonstrate “substantial competition” to obtain contract pricing authority
- Contract pricing must be available to “similarly-situated customers” -- no route-specific contracts
- Necessary, but not sufficient, conditions for substantial competition showing:
 - NRC waivers, fresh look, collo at cost, functional OSS, T1 UNE loops at TELRIC, UNE combinations, etc.
- Decision within one year of filing petition

Transport Framework (cont'd)

ILEC proposed “triggers” are inadequate

- Provide no evidence of competitive alternatives
 - SGAT/agreement
 - mere existence of facilities in a wire center
 - CAP has single customer
- Would obtain contract pricing authority today

No Need to Address Switched Access

- No switched access competition
- Substantial uncertainties
 - is UNE-based competition viable?
 - Supreme Court decision
- No cost justification for most ILEC switched access pricing flexibility proposals

No Cost Justification for ILEC Switched Access Proposals

- Term and contract discounts
 - how can an IXC commit to contract pricing for switched access? End user chooses supplier.
- Geographic deaveraging
 - no evidence of cost basis for deaveraging LS
- Reducing X-Factor as competition increases
 - no evidence that productivity growth declines as competition increases

No Cost Justification for ILEC Switched Access Proposals (cont'd)

- Differential pricing according to end user class
 - no evidence of a cost basis
- Growth discounts
 - no evidence of a cost basis
- Increasing the SBI upper limit
 - no evidence that any ILEC rates are below cost